

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-06 ISO-00 AID-05 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 IO-10 NEA-09 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 FEA-01

ERDA-05 DODE-00 FPC-01 H-01 INT-05 L-02 NSC-05 PM-03

SAM-01 OES-03 SS-15 STR-01 AGR-05 /121 W

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R 011300Z MAR 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 5787

AMEMBASSY ANKARA

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY BERN

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AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

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E.O. 11652: N/A

TAGS: ENRG OECD CA

SUBJECT: PREFERENTIAL TAX TREATMENT FOR FEEDSTOCKS USED
IN PETROCHEMICALS

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REF: A.STATE 29471 B. OTTAWA 97 (NOTAL)

1. CANADIAN FEEDSTOCKS FOR PETROCHEMICAL INDUSTRY BENEFIT SUBSTANTIALLY FROM CANADIAN NATIONAL OIL POLICY ADOPTED IN LATE 1973 AND EARLY 1974, I.E., MAINTENANCE OF CRUDE OIL PRICES AT LEVELS CONSIDERABLY BELOW WORLD MARKET LEVELS THROUGH PRICE FREEZE ON DOMESTIC CRUDE PRODUCTION AT C\$6.50 PER BARREL AT WELL-HEAD AND THROUGH "COMPENSATION" OR SUBSIDY PAYMENTS TO CRUDE OIL IMPORTERS WHICH ENABLE THEM TO SUPPLY EASTERN CANADIAN REFINERS WITH CRUDE AT A COST EQUIVALENT TO THE FROZEN DOMESTIC WELL-HEAD PRICE PLUS HYPOTHETICAL TRANSPORT COSTS (ABOUT 70 CENTS PER BARREL) OF BRINGING SUCH OIL FROM WESTERN CANADIAN PRODUCING PROVINCES TO MONTREAL. THIS POLICY, OF COURSE, DOES PROVIDE CANADIAN PETROCHEMICAL INDUSTRY WITH COMPETITIVE ADVANTAGE OVER OTHER SUPPLIERS.

2. ON TAX SIDE, AS DETAILED IN PARA. 1 OF REFTEL B, THE GOC IMPOSES NO REPEAT NO DOMESTIC TAXES DIRECTLY ON DOMESTIC CRUDE PRODUCTION NOR IMPORT DUTIES ON CRUDE OR PETROLEUM PRODUCTS, WITH SOME VERY MINOR AND INSIGNIFICANT EXCEPTIONS. THERE IS, HOWEVER, A GENERAL 12 PERCENT FEDERAL SALES TAX LEVIED ON GOODS MANUFACTURED IN CANADA, INCLUDING REFINED PETROLEUM PRODUCTS (WITH THE EXCEPTION OF HEATING OIL). THIS SALES TAX IS APPLIED TO THE MANUFACTURER'S OR REFINER'S SELLING PRICE OR PAID VALUE OF IMPORTS. THE TAX IS PAID AT THE TIME OF DELIVERY TO THE PURCHASER, OR WHEN THE OWNERSHIP OF THE GOODS CHANGES, OR BY THE IMPORTER AT THE TIME OF IMPORT. THIS SALES TAX IS NOT REPEAT NOT APPLIED TO RAW MATERIALS, SUCH AS CRUDE OIL, AMONG OTHERS.

3. ACCORDING TO KNOWLEDGEABLE OFFICIALS IN THE DEPARTMENTS OF ENERGY, MINES AND RESOURCES AND INDUSTRY, TRADE AND COMMERCE, CANADA DOES NOT REPEAT NOT DIFFERENTIATE THE GENERAL SALES TAX OF 12 PERCENT AMONG TYPES OF PETROLEUM PRODUCTS, NOR DOES IT PROVIDE ANY REBATES OR REFUNDS ON FEEDSTOCKS, LIMITED OFFICIAL USE

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INCLUDING NAPHTHA, "AT PRESENT".

4. EMBOFF ASKED WHAT WAS IMPLIED BY "AT PRESENT" QUALIFICATION AND WAS TOLD THAT CONCEIVABLY SOME FEEDSTOCK ASSISTANCE MIGHT BE PROVIDED IN THE INDEFINITE FUTURE IN CONNECTION WITH EMBRYONIC PLANS FOR ESTABLISHING A PETROCHEMICAL INDUSTRY IN ALBERTA AND POSSIBLY IN THE CASE OF THE PROPOSED PETROSTAR PETRO-

CHEMICAL PLANT TO BE CONSTRUCTED AT SARNIA, ONTARIO.

5. IT SHOULD ALSO BE NOTED THAT THE PRESENT CANADIAN CRUDE PRICE ADVANTAGE CAN BE EXPECTED TO DIMINISH AS A RESULT OF THE UP-COMING APRIL MEETING IN OTTAWA OF THE FEDERAL GOVERNMENT AND PROVINCIAL PREMIERS AT WHICH TIME IT IS GENERALLY BELIEVED THAT THE FROZEN WELL-HEAD PRICE OF DOMESTIC CRUDE WILL RISE TO ABOUT C\$8.50 PER BARREL AND SOME SOURCES PREDICT PARITY WITH WORLD MARKET LEVELS BY 1976 OR 1977 AT THE LATEST.
PORTER

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